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Director-
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EX PARTE OR LATE FILED

EX PARTE

July 10, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop Code 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

RE: CC Docket No. 95-116

Dear Mr. Caton:

Yesterday, July 9, 1997, Mr. Lincoln Brown and the undersigned, representing SBC Communications Inc. (SBC) met with Mr. Jose Rodriquez, Mr. Thad Machcinski, Ms. Kim Yee and Ms. Debbie Weber, regarding some questions that the Accounting and Audits Division Staff had with respect to Long-Term Number Portability (LNP).

A synopsis of the conversation is attached. SBC representatives provided an overview of how LNP will work, summarized the costs involved in upgrading the network and operational support systems, discussed how the LNP will be accounted for and recorded in SBC's books. SBC representatives explained that LNP will be accounted for in accordance with GAAP and as required by the Commission's Rules, including Part 32.2000 (h)(4)(i), Accounting for Software, and the current separations process in Part 36.

The underpinnings of the current separations rules, however, which SBC is required to follow, preceded and, thus, did not consider the Telecommunications Act of 1996's federal treatment of LNP and the ubiquitous interstate nature of the costs associated with implementing the FCC's order on LNP. Notwithstanding the current separations rules, recovery of the costs incurred to implement LNP should be through the interstate charges, as recently filed in the tariffs of Southwestern Bell Telephone Company (SWBT) and Pacific Bell, and as has been our position in this Docket. Recovery of number portability costs in the Federal jurisdiction is appropriate because, among other reasons: number portability is a Federal mandate contained in the Telecommunications Act of 1996 and Congress has given the responsibility for cost recovery for Number Portability to the Commission; only the FCC regulates and has jurisdiction over, and can prescribe a recovery mechanism that includes, "all telecommunications carriers"; the FCC ordered the specific nationwide network architecture to be used to provide number portability; and the FCC ordered specific deployment schedule and implementation intervals in all state jurisdictions.

Please include this letter and the attachments in the record of these proceedings in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Acknowledgment and date of receipt of this transmittal are requested. A duplicate transmittal letter is attached for this purpose.

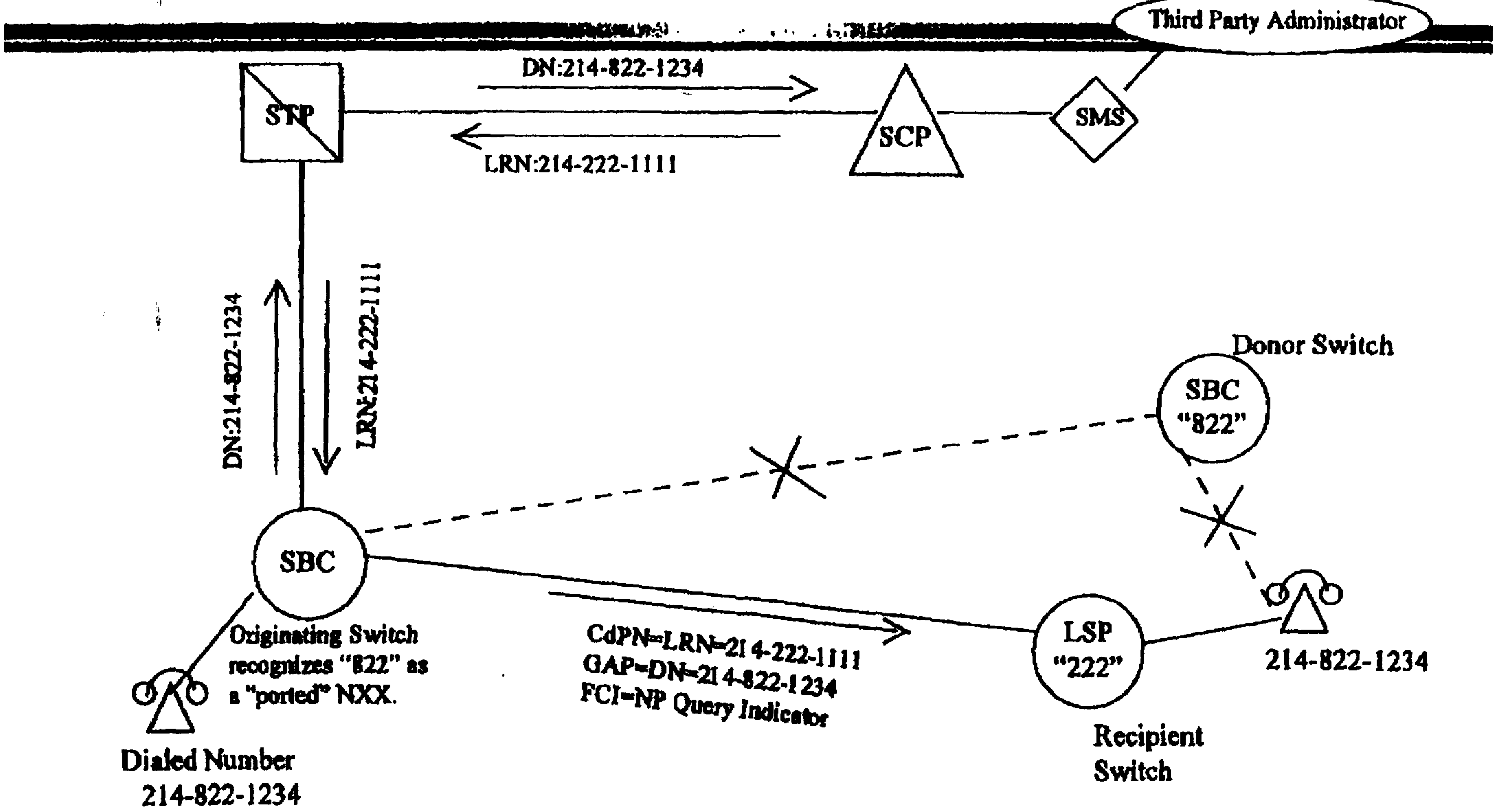
Please contact me at (202) 326-8894 or Mr. Brown at (202) 326-8890 if you have further questions concerning this matter.

Respectfully submitted,

Attachments - 2

cc: Mr. Ken Moran, Chief, Accounting and Audit Division
Mr. Jose Rodriquez, Chief, Accounting Systems

LRN - Location Routing Number



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In order to comply with the FCC's Order on Number Portability in CC Docket No. 95-116 released July 2, 1996, SBC Communications Inc. (SBC) will initially spend $1.5 Billion in capital costs and expenses.

Current projections are that we will capitalize approximately one-third and expense approximately two-thirds of the total amount. Most of the expenditures are related to switching equipment. Additionally, there will be expenditures for upgrades to the Operating Support Systems (OSS) and to signaling systems (i.e., SS7) and for Right to Use fees.

The net income impact is expected to total approximately $30 Million in the second quarter of 1997, an additional $175 Million in the remainder of 1997, and $350 Million after 1997.

Local Number Portability (LNP) requires the modification of all operational systems and information databases that use a telephone number, such as billing, provisioning, repair service, inventory, etc. Additions or modifications will also be required to operating systems, switching equipment and to the SS7 signaling system.

In 1995, SWBT and PacBell discontinued use of SFAS-71 (Accounting for the Effects of Certain Types of Regulation) for external reporting purposes. Because of this, financial accounting and reporting for LNP will be based on GAAP. That is, capital expenditures will be recognized as the underlying labor, equipment and material, engineering, associated right to use fees and other expenditures are received or incurred. These amounts will be recorded in Account 2003 (Telecommunications Plant Under Construction) until such time as the plant is placed into service.

Once placed into service, the cost will be charged to the appropriate Telecommunications Plant in Service Accounts. Most of the these costs will be recorded in the following accounts:

Account 2211--Analog Electronic Switching
Account 2212--Digital Electronic Switching
Account 2232--Circuit Equipment
Account 2124--General Purpose Computers

Depreciation expense (Account 6560, and Accumulated Depreciation, Account 3100) will then be recognized over the estimated useful lives of the capitalized assets.

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Expenditures for expense related items, such as software right to use fees, costs to modify or enhance operating and support systems (OSS), additions to workforce, etc. will also be recognized as they are incurred as expenses as normal operating expenses for external reporting purposes. Most of the expenses will be recorded in the following accounts:

Account 6211--Analog Electronic Expense
Account 6212--Digital Electronic Expense
Account 6232--Circuit Equipment Expense
Account 6124--General Purpose Computers Expense
Account 6724--Information Management Expense

In short, expenditures will be recorded on a business as usual basis in accordance with Part 32 of the FCC's Rules and Regulations.